STATE OF SOUTH CAROLINA

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

Application of Duke Energy Carolinas, LLC for Approval of Energy Efficiency Plan Including an Energy Efficiency Rider and Portfolio of Energy Efficiency Programs

COVER SHEET

DOCKET NUMBER: 2007-358-E

(Please type or print)

Submitted by: Frank R. Ellerbe, III

SC Bar Number: 1866

Address: Robinson, McFadden & Moore, P.C.
P.O. Box 944
Columbia, SC 29202

Telephone: (803) 779-8900

Fax: (803) 252-0724

Other:

Email: fellerbe@robinsonlaw.com

NOTE: The cover sheet and information contained herein neither replaces nor supplements the filing and service of pleadings or other papers as required by law. This form is required for use by the Public Service Commission of South Carolina for the purpose of docketing and must be filled out completely.

DOCKETING INFORMATION (Check all that apply)

☐ Emergency Relief demanded in petition ☐ Request for item to be placed on Commission's Agenda expeditiously

☒ Other:

INDUSTRY (Check one)	NATURE OF ACTION (Check all that apply)		
☒ Electric	☐ Affidavit	☐ Letter	☐ Request
☐ Electric/Gas	☐ Agreement	☐ Memorandum	☐ Request for Certificatio
☐ Electric/Telecommunications	☐ Answer	☒ Motion	☐ Request for Investigatior
☐ Electric/Water	☐ Appellate Review	☐ Objection	☐ Resale Agreement
☐ Electric/Water/Telecom.	☐ Application	☐ Petition	☐ Resale Amendment
☐ Electric/Water/Sewer	☐ Brief	☐ Petition for Reconsideration	☐ Reservation Letter
☐ Gas	☐ Certificate	☐ Petition for Rulemaking	☐ Response
☐ Railroad	☐ Comments	☐ Petition for Rule to Show Cause	☐ Response to Discovery
☐ Sewer	☐ Complaint	☐ Petition to Intervene	☐ Return to Petition
☐ Telecommunications	☐ Consent Order	☐ Petition to Intervene Out of Time	☐ Stipulation
☐ Transportation	☐ Discovery	☐ Prefiled Testimony	☐ Subpoena
☐ Water	☐ Exhibit	☐ Promotion	☐ Tariff
☐ Water/Sewer	☐ Expedited Consideration	☐ Proposed Order	☐ Other:
☐ Administrative Matter	☐ Interconnection Agreement	☐ Protest	
☐ Other:	☐ Interconnection Amendment	☐ Publisher's Affidavit	
	☐ Late-Filed Exhibit	☐ Report	

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2007-358-E

In re: Application of Duke Energy Carolinas, LLC For Approval of Energy Efficiency Plan Including an Energy Efficiency Rider and Portfolio of Energy Efficiency Programs	))))))))	**EXPLANATORY BRIEF AND JOINT MOTION FOR APPROVAL OF PARTIAL SETTLEMENT AND ADOPTION OF SETTLEMENT AGREEMENT**

Duke Energy Carolinas, LLC ("Duke Energy Carolinas"), the South Carolina Office of Regulatory Staff ("ORS"), South Carolina Energy Users Committee ("SCEUC"), and Wal-Mart Stores East, LP ("Wal-Mart") (collectively "the Parties") pursuant to S.C. Regs. 103-829 and other applicable statutes, rules and regulations, and consistent with the Settlement Policies and Procedures established by the Public Service Commission of South Carolina ("Commission"), revised June 13, 2006, file this Explanatory Brief and Joint Motion seeking approval of a partial settlement in the above-captioned proceeding. In support of this Joint Motion, the Parties provide the following information:

1. On September 28, 2007, Duke Energy Carolinas filed an Application requesting approval of (1) a new regulatory approach to energy efficiency programs, (2) an energy efficiency rider to implement the energy efficiency plan, and (3) a portfolio of energy efficiency programs. The Application was filed pursuant to S.C. Code Ann. Sections 58-27-820, 58-27-870, and 58-37-20. ORS is a party of record in this

proceeding pursuant to 58-4-10(B). SCEUC and Wal-Mart filed petitions to intervene and are parties of record. The other parties of record that are not parties to the proposed settlement are Piedmont Natural Gas ("Piedmont"), Southern Environmental Law Center ("SELC"), the Coastal Conservation League ("CCL"), and the Southern Alliance for Clean Energy ("SACE")("Non-Settling Intervenors"). Environmental Defense ("ED") filed a petition to intervene out of time on January 18, 2008.

2. Duke Energy Carolinas has filed direct and rebuttal testimony in accordance with the schedule established by the Commission in this proceeding.

3. Following extensive discussions concerning the issues in this proceeding, Duke Energy Carolinas, SCEUC, and Wal-Mart have determined that their interests, and ORS has determined that the public interest, would best be served by stipulating to a settlement of all of the issues between the Parties. The agreement detailing the terms and conditions of the settlement is attached as Exhibit A. The list of proposed witnesses to be presented to the Commission to support the settlement and their settlement testimony are attached as Exhibit B. The basis and rationale for the settlement is set forth in the proposed settlement testimony of the witnesses.

4. Currently, the hearing in this matter is scheduled for February 5 and 6, 2008. The Parties jointly move the Commission to commence the hearing as scheduled on February 5, 2008, to permit Duke Energy Carolinas, the Non-Settling Intervenors, and any public witnesses an opportunity to testify. The Parties propose that they be allowed to publish a summary of the proposed settlement and present evidence in support of the settlement during the hearing so that the Commission can consider the merits of the proposed settlement.

5. The parties move that the Commission approve the Settlement Agreement as being in the public interest.

WHEREFORE, having fully set forth their Explanatory Brief and Joint Motion, the parties request that the Commission issue an order approving the Parties settlement as just, fair and reasonable.

Dated this 29th day of January, 2008.

WE SO MOVE:

Attorneys for Duke Energy Carolinas, LLC

Frank R. Ellerbe, III
Bonnie D. Shealy
Robinson McFadden & Moore
1901 Main Street, Suite 1200
Post Office Box 944
Columbia, South Carolina 29202
Phone: (803) 779-8900
Fax: (803) 252-0724
Email: fellerbe@robinsonlaw.com
bshealy@robinsonlaw.com

and

Catherine E. Heigel, Esquire
Duke Energy Carolinas, LLC
526 S. Church Street, EC03T
Charlotte, North Carolina 28202
Phone: (704) 382-8123
Fax: (704) 382-5690
Email: ceheigel@duke-energy.com

Office of Regulatory Staff

Nanette S. Edwards, Chief Counsel
1441 Main Street, Suite 300
Columbia, SC 29201
Phone: (803) 737-0575
Fax: (803) 737-0895
Email: nsedwar@regstaff.sc.gov

Attorney for South Carolina Energy Users Committee:

Scott Elliott, Esquire
Elliott & Elliott, P.A.
721 Olive Street
Columbia, South Carolina 29205
Phone: (803) 771-0555
Fax: (803) 771-8010
Email: selliott@elliottlaw.us

Attorney for Wal-Mart Stores East, LP:

Alan R. Jenkins
Jenkins at Law, LLC
2265 Roswell Road, Suite 100
Marietta, Georgia 30062
Phone: (770) 509-4866
Fax: (770) 973-5365
Email: aj@jenkinsatlaw.com

and

Robert E. Tyson, Jr., Esquire
Sowell Gray Stepp & Laffitte, LLC
Post Office Box 11449
Columbia, South Carolina 29211
Phone: (803) 231-7838
Fax: (803) 231-7888
Email: rtyson@sowell.com

Office of Regulatory Staff

____

Nanette S. Edwards, Chief Counsel
1441 Main Street, Suite 300
Columbia, SC 29201
Phone: (803) 737-0575
Fax: (803) 737-0895
Email: nsedwar@regstaff.sc.gov

Attorney for South Carolina Energy Users Committee:

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Scott Elliott, Esquire
Elliott & Elliott, P.A.
721 Olive Street
Columbia, South Carolina 29205
Phone: (803) 771-0555
Fax: (803) 771-8010
Email: selliott@elliottlaw.us

Attorney for Wal-Mart Stores East, LP:

____

Alan R. Jenkins
Jenkins at Law, LLC
2265 Roswell Road, Suite 100
Marietta, Georgia 30062
Phone: (770) 509-4866
Fax: (770) 973-5365
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Sowell Gray Stepp & Laffitte, LLC
Post Office Box 11449
Columbia, South Carolina 29211
Phone: (803) 231-7838
Fax: (803) 231-7888
Email: rtyson@sowell.com

Office of Regulatory Staff

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Nanette S. Edwards, Chief Counsel
1441 Main Street, Suite 300
Columbia, SC 29201
Phone: (803) 737-0575
Fax: (803) 737-0895
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721 Olive Street
Columbia, South Carolina 29205
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Fax: (803) 771-8010
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Post Office Box 11449
Columbia, South Carolina 29211
Phone: (803) 231-7838
Fax: (803) 231-7888
Email: rtyson@sowell.com

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Alan R. Jenkins
Jenkins at Law, LLC
2265 Roswell Road, Suite 100
Marietta, Georgia 30062
Phone: (770) 509-4866
Fax: (770) 973-5365
Email: aj@jenkinsatlaw.com

EXHIBIT A

SETTLEMENT AGREEMENT

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2007-358-E

January 17, 2008

In re: Application of Duke Energy Carolinas, LLC For Approval of Energy Efficiency Plan Including an Energy Efficiency Rider and Portfolio of Energy Efficiency Programs	))))))	**SETTLEMENT AGREEMENT**

This Settlement Agreement (the "Settlement Agreement") is made by and among the South Carolina Office of Regulatory Staff ("ORS"), South Carolina Energy Users Committee ("SCEUC"), Wal-Mart Stores East, LP ("Wal-Mart"), and Duke Energy Carolinas, LLC ("Duke Energy Carolinas" or the "Company") (collectively referred to as the "Parties" or sometimes individually as a "Party").

RECITALS

WHEREAS, the above-captioned proceeding has been established by the Public Service Commission of South Carolina ("Commission") pursuant to S.C. Code Ann. § 58-37-20, and the Parties to this Settlement Agreement are parties of record in the above-captioned docket. The other parties of record in the above-captioned proceeding that are not parties to this Settlement Agreement are: Piedmont Natural Gas Company, Incorporated, Southern Environmental Law Center, the Coastal Conservation League and the Southern Alliance for Clean Energy.

WHEREAS, the Parties have engaged in discussions to determine if a settlement of the issues would be in their best interests;

NOW THEREFORE, following those discussions, the Parties have each determined that their interests and the public interest would be best served by settling all issues pending in the above-captioned case under the terms and conditions set forth below:

AGREEMENT

1. The Parties agree to support this settlement in the evidence they submit to the Commission in this proceeding. To the extent that the pre-filed testimony of Duke Energy Carolinas previously submitted in this docket is inconsistent with the terms of this Settlement Agreement, Duke Energy Carolinas agrees to submit supplemental testimony revising its previous position to make it clear that the Company supports this settlement.

2. As a compromise to positions advanced by Duke Energy Carolinas, ORS, SCEUC, and Wal-Mart, the Parties hereto agree to the proposal set out immediately below, and this proposal is hereby adopted, accepted, and acknowledged as the agreement of the Parties. The Parties agree that:

I. Opt Out for Large Customers

3. All customers will pay for demand (kW) response programs and no customer opt out option will apply to demand response programs. The Parties agree that large industrial and commercial customers in South Carolina may opt out of the energy (kWh) conservation portion of the Company's Rider EE (SC) if the following conditions are met:

a. The customer certifies or attests to Duke Energy Carolinas that, as to each facility for which the customer seeks to opt out, within the last three years it has performed or had performed an energy audit or analysis and has implemented or has plans for implementing the cost effective measures identified for installation in that audit or analysis; and

b. The customer's annual maximum peak demand is greater than 3500 kW; or

c. The customer's aggregated annual maximum peak demand is greater than 6000 kW. A customer may aggregate the load of the South Carolina accounts of its affiliates to meet this opt out threshold. For purposes of this provision, an "affiliate" shall be defined as any business entity of which 50% or more is owned or controlled, directly or indirectly, by the customer.

If a customer qualifies to opt out of the energy conservation portion of the Company's Rider EE (SC), the customer may choose to opt out for select accounts/locations or all accounts, at its sole election. However, the customer cannot opt out of individual programs. The choice to opt out applies to the Company's entire portfolio of energy conservation programs, which comprise the energy conservation portion of Rider EE (SC). Further, once a customer elects to participate in an energy efficiency program, the customer may not subsequently choose to opt out of the energy conservation portion of Rider EE (SC) for a period of five years or the life of the applicable measure, whichever is longer. If for any reason the customer terminates its participation in an energy efficiency program prior to the expiration of the life of the applicable measure or five years, whichever is more, the customer shall pay Duke Energy Carolinas a termination charge equal to the prorated value of the incentive provided to the customer, which shall be determined by dividing the remaining term of the measure life by the full measure life or five years, whichever is more, and multiplying the resulting quotient by the incentive paid to the customer. The Company agrees not to charge an industrial or general service customer for the costs of installing demand response or demand-side management equipment on the customer's premises if the customer provides, at the customer's sole expense, equivalent demand response or demand-side management equipment, as determined by the Company in its sole discretion.

II. Cost Allocation Methodology

4. For purposes of this agreement only, the Parties agree that the costs associated with demand response energy efficiency programs will be allocated among all customer classes based on the class' contribution to the Company's firm peak demand. For energy conservation/efficiency programs, non-residential customers will pay for non-residential programs and residential customers will pay for residential programs. For the purposes of this agreement only, the allocations among customers classes for demand response programs will be calculated in the same manner as those provided for in Sections 58-27-865(A)(1)(variable environmental costs) under the Base Load Review Act.

III. Demand Side Management ("DSM") Balance Return to Customers

5. Currently in South Carolina, Duke Energy Carolinas is required to defer the difference between the DSM amounts it collects from customers, which is approximately $18 million each year, and what the Company spends to deliver DSM programs. This deferral requirement over time has resulted in an over collection of DSM amounts by Duke Energy Carolinas from customers of approximately $87 million as of November 30, 2007. The Parties agree that (i) the current collection for DSM costs of

$0.000811/kWh will be replaced by the approved Rider EE (SC) amounts, and (ii) the DSM deferral account balance (the "DSM Balance"), including accrued interest at the currently approved rate, will be calculated by customer class and those customer class balances will be returned to each customer class as described below until the DSM Balance is zero by class, or until the Company's next base rate case, whichever occurs first. For Residential, General Service, and Lighting customers the DSM Balance will be used to implement a rate decrement equal to the increment resulting from the difference between the current DSM collection in rates and the demand response and conservation factors comprising the annual Rider EE (SC) rate. For industrial customers the DSM Balance will be used to implement a rate decrement equal to the demand response and conservation factors comprising the annual Rider EE (SC) rate increment. In calculating the amount of the existing DSM Balance, which is credited to each class of customers, the Parties agree that costs of delivering DSM programs prior to implementation of Rider EE (SC) should be assigned to the classes based on actual payments made to customers.

IV. Compromise on Percentage of Avoided Cost

6. In its Application and testimony filed in this docket, Duke Energy Carolinas has proposed that it be compensated for investments in energy efficiency at 90% of avoided generation costs as set forth in Rider EE (SC). The Parties agree that the percentage of avoided costs which will be used for purposes of compensating Duke Energy Carolinas will be 85%. Thus, Duke Energy Carolinas will use 85% of avoided costs for purposes of calculating Rider EE (SC) and for all other purposes described in its Application and testimony.

V. Two Year Review of the Company's Energy Efficiency Plan

7. The Parties agree and acknowledge that the Company's Energy Efficiency Plan, including its save-a-watt rate recovery mechanism, presents a new, more complex approach to pursuing energy efficiency that will require careful monitoring by ORS, as well as Duke Energy Carolinas, as the Plan is implemented. Accordingly, the Parties agree that on the second anniversary of the effective date of Rider EE (SC), ORS may (i) conduct a full review and evaluation of the Company's Energy Efficiency Plan pursuant to its authority under South Carolina Code Annotated Section 58-4-50(A)(1) and (2), and (ii) make recommendations regarding any changes, corrections or amendments to the save-a-watt program that ORS deems to be in the public interest consistent with the South Carolina Energy Conservation and Efficiency Act of 1992. Duke Energy Carolinas agrees to cooperate fully in such review and evaluation. Nothing in this Settlement Agreement restricts the right of Duke Energy Carolinas to oppose changes proposed by ORS or to seek revisions or amendments to the Energy Efficiency Plan.

8. As stated in paragraph 7 the Company's Energy Efficiency Plan is a new, more complex approach to pursuing energy efficiency and after an initial implementation period of approximately two years, the plan will be subject to full review and evaluation. Nothing in this Settlement Agreement shall restrict the right of any party to oppose the continuation of the plan or to seek revisions or amendments to the plan.

VI. Quarterly Reports

9. The Parties agree that Duke Energy Carolinas shall account for the impacts of the proposed save-a-watt regulatory treatment on energy efficiency revenues in its Quarterly Reports as follows: the Company will include (a) revenues earned

through Rider EE (SC), and (b) expenses calculated at 85% of the avoided generation costs as calculated in Rider EE (SC). Actual program costs for the reporting period will be included for information purposes as a footnote in the Reports. In no event will Duke Energy Carolinas seek to recover program costs in addition to 85% of the avoided generation costs calculated in Rider EE (SC).

10. Duke Energy Carolinas proposed in the prefiled testimony Stephen M. Farmer in this docket that ORS and other parties of record have a period of seventy-five (75) days to respond to the Company's proposed analysis report of the first Evaluation period and for the amount of the Rider EE (SC) that will be in effect for the following year. The Parties agree that ORS and other parties of record shall have a period of one hundred and twenty (120) days to respond to the Company's proposed report and Rider EE (SC).

11. Exhibit No. 1 to the Direct Testimony of Duke Energy Carolinas witness Theodore E. Schultz contains a listing of various specific conservation and demand response programs (the "Programs") that Duke Energy Carolinas will offer as part of its Energy Efficiency Plan. All Programs will be implemented pursuant to future tariff filings made by Duke Energy Carolinas in this docket. Duke Energy Carolinas agrees that it will consult with ORS about implementation of the Programs prior to filing tariffs by which these Programs will be implemented.

12. Duke Energy Carolinas understands that Wal-Mart is interested in participating in many of the Company's energy efficiency programs, such as (i) energy efficiency assessments that include recommendations on how best to apply planned incentives, (ii) Power Share©, and (iii) the development of the ability to aggregate loads

under Power Share©, and the Company agrees to work with Wal-Mart as it develops and implements these programs.

13. The Parties acknowledge that Duke Energy Carolinas has made an application to the North Carolina Utilities Commission in Docket No. E-7, Sub 831 to implement its Energy Efficiency Plan in North Carolina. Accordingly, the Parties agree that cost allocations for ratemaking purposes will take into account the capacity and energy savings by state and the effects those savings have on actual generating plant costs, peak demand, and energy sales, and incorporate those effects into the allocation of production plant costs, such that each state receives appropriate credit for the results achieved and for the costs paid through Rider EE.

14. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution by the Parties to this Settlement Agreement of all issues currently pending in the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

15. This written Settlement Agreement contains the complete agreement of the Parties. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions held in future proceedings. If the Commission declines to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty, within five days of receiving notice of the decision, by providing written notice of withdrawal

via electronic mail to all parties in that time period.

16. This Settlement Agreement shall be effective upon execution of the Parties and shall be interpreted according to South Carolina law.

17. This Settlement Agreement shall bind and inure to the benefit of each of the signatories hereto and their representatives, predecessors, successors, assigns, agents, shareholders, officers, directors (in their individual and representative capacities), subsidiaries, affiliates, parent corporations, if any, joint ventures, heirs, executors, administrators, trustees, and attorneys.

18. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the Settlement Agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

(Signature Pages Follow)

Representing and binding South Carolina Energy Users Committee:

Scott Elliott, Esquire
Elliott & Elliott, P.A.
721 Olive Street Columbia, SC 29205
Phone: (803) 771-0555
Fax: (803) 771-8010
Email: selliott@elliottlaw.us

Representing and binding Wal-Mart Stores East, LP:

Alan R. Jenkins
Jenkins at Law, LLC
2265 Roswell Road, Suite 100
Marietta, Georgia 30062
Phone: (770) 509-4866
Fax: (770) 973-5365
Email: aj@jenkinsatlaw.com

and

Robert E. Tyson, Jr., Esquire
Sowell Gray Stepp & Laffitte, LLC
Post Office Box 11449
Columbia, South Carolina 29211
rtyson@sowell.com

Representing and binding Duke Energy Carolinas, LLC:

Frank R. Ellerbe, III
Robinson McFadden & Moore
1901 Main Street, Suite 1200
Columbia, SC 29202
Phone: (803) 779-8900
Fax: (803) 252-0724
Email: fellerbe@robinsonlaw.com

Catherine E. Heigel, Esquire
Duke Energy Carolinas, LLC
526 S. Church Street, EC03T
Charlotte, NC 28202
Phone: (704) 382-8123
Fax: (704) 382-5690
Email: ceheigel@duke-energy.com

Representing and binding the Office of Regulatory Staff:

Nanette S. Edwards

Nanette S. Edwards, Esquire
Chief Counsel, Office of Regulatory Staff
1441 Main Street, Suite 300 Columbia, SC 29201
Phone: (803) 737-0575
Fax: (803) 737-0895
Email: nsedwar@regstaff.sc.gov

EXHIBIT B

LIST OF PROPOSED WITNESSES IN SUPPORT OF THE SETTLEMENT

1. Ellen T. Ruff – Duke Energy Carolinas, LLC
2. Stephen M. Farmer – Duke Energy Carolinas, LLC

EXHIBIT B-1

Supplemental Testimony of
Ellen T. Ruff for
Duke Energy Carolinas

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2007-358-E

In re:	)	
Application of Duke Energy Carolinas, LLC	)	**SUPPLEMENTAL**
For Approval of Energy Efficiency Plan	)	**TESTIMONY OF**
Including an Energy Efficiency Rider and	)	**ELLEN T. RUFF FOR**
Portfolio of Energy Efficiency Programs	)	**DUKE ENERGY CAROLINAS**
	)	

I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME, ADDRESS, AND POSITION WITH DUKE ENERGY.

A. My name is Ellen T. Ruff, and my business address is 526 South Church Street, Charlotte, North Carolina. I am President of Duke Energy Carolinas, LLC ("Duke Energy Carolinas" or the "Company"). Duke Energy Carolinas is a wholly-owned subsidiary of Duke Energy Corporation ("Duke Energy").

Q. HAVE YOU PREVIOUSLY FILED DIRECT TESTIMONY IN SUPPORT OF DUKE ENERGY CAROLINAS' APPLICATION IN THIS DOCKET?

A. Yes, I have.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A. After the Company filed its direct testimony and exhibits and provided information to the Office of Regulatory Staff ("ORS") and responded to discovery from the other parties, we conducted negotiations with several of the parties in this docket and reached a full settlement of the issues with three of the parties: ORS, the South Carolina Energy Users Committee, and Wal-Mart Stores East, L.P.. These parties, together with Duke Energy Carolinas, are collectively referred to hereinafter as the "Settling Parties." The purpose of my supplemental testimony is to present and support the settlement agreed upon by the Settling Parties.

II. OVERVIEW OF THE SETTLEMENT AGREEMENT

Q. PLEASE IDENTIFY EXHIBIT A WHICH IS ATTACHED TO THE EXPLANATORY BRIEF AND JOINT MOTION FOR APPROVAL OF PARTIAL SETTLEMENT AND ADOPTION OF SETTLEMENT AGREEMENT.

A. Exhibit A, which is entitled, "Settlement Agreement," is the document that embodies the full agreement of the Settling Parties in this docket.

Q. CAN YOU PLEASE SUMMARIZE THE KEY POINTS OF THE SETTLEMENT AGREEMENT?

A. The Settlement Agreement is the product of extensive give-and-take negotiations among the Settling Parties. It is styled as a full settlement of all issues among the Settling Parties and contains the compromise agreement of the Settling Parties on the following issues:

- An opt out of the conservation portion of Rider EE (SC) for large customers;
- A change in the cost allocation methodology demand response programs;
- Return of the Demand Side Management ("DSM") deferral account balance to customers;
- Reduction in the percentage of avoided costs used to calculate Rider EE (SC);
- A two year review of the Company's Energy Efficiency Plan by ORS;
- A change to how energy efficiency revenues will be reported in the Company's Quarterly Reports; and
- An extension of the review period for ORS and other parties of record to respond to the Company's annual report and Rider EE (SC) update from 75 days to 120 days.

III. THE OPT OUT FOR LARGE CUSTOMERS

Q. PLEASE EXPLAIN WHICH CUSTOMERS ARE ELIGIBLE TO OPT OUT OF THE CONSERVATION PORTION OF RIDER EE (SC).

A. Large commercial and industrial customers whose maximum annual peak load demands exceed either (i) 3,500 kW for individual accounts, or (ii) 6,000 kW for the aggregated accounts of the customer and its affiliates, may opt out of the energy conservation portion of the Company's energy efficiency rider ("Rider EE (SC)"). The customer's ability to opt out is conditioned upon the customer certifying or attesting to Duke Energy Carolinas that it has performed or had performed for it an energy audit or analysis within the three year period preceding the opt out request and has implemented or has plans for implementing the cost-effective measures recommended in that audit or analysis.

Q. ARE THERE ANY LIMITATIONS ON THE QUALIFYING CUSTOMERS' RIGHT TO OPT OUT?

A. Yes, there are several limitations. First, and most importantly, the opt out provision only applies to the conservation portion of Rider EE (SC). All customers will participate in the demand response portion of Rider EE (SC). Second, a decision to opt out of the conservation portion of Rider EE (SC) applies to the entire portfolio of energy efficiency programs offered by the Company. Therefore, a customer cannot selectively opt out of individual programs.

Third, once a customer participates in the conservation portion of the rider, the customer cannot subsequently choose to opt out of that portion of the rider for a period of five years or the life of the applicable measure, whichever is longer. And finally, if the customer terminates its participation in the conservation portion of Rider EE (SC) prior to the expiration of the life of the applicable measure or five years, whichever is longer, the customer must pay the Company a termination charge as more fully set forth in the Settlement Agreement.

Q. DO YOU BELIEVE THE OPT OUT PROVISION IS JUST AND REASONABLE?

A. Yes. Duke Energy Carolinas believes the opt out option for large commercial and industrial customers strikes an appropriate balance between encouraging customers to participate in the Company's energy conservation programs, which benefits all customers by helping the Company to delay or avoid more expensive supply-side options, and not requiring customers to pay for programs they have already implemented or undertaken to implement at their own expense. Further, because the opt out provision does not apply to the demand response portion of Rider EE (SC), the cost impact to all customers of allowing select customers to opt out of the conservation programs is expected to be minimal. For these reasons, the Company believes the opt out provision is just and reasonable for all customers.

IV. COST ALLOCATION METHODOLOGY

Q. PLEASE SUMMARIZE HOW THE SETTLEMENT AGREEMENT PROPOSES TO CHANGE THE WAY COSTS FOR THE COMPANY'S ENERGY EFFICIENCY PROGRAMS ARE ALLOCATED.

A. In the Company's Application, Duke Energy Carolinas proposed that residential customers pay for residential energy efficiency programs and non-residential customers pay for non-residential programs. However, in recognition of the system wide benefits generated by participation in demand response programs by non-residential customers, the Settling Parties have agreed to allocate these costs among all customer classes based on the class' contribution to the Company's firm peak demand.

The Settlement Agreement does not propose any change in cost allocation methodology for energy conservation programs, which help customers lower their bills by reducing the number of kilowatt-hours consumed. Energy conservation program costs will be allocated to residential customers for residential programs and to non-residential customers for non-residential programs.

Q. WHY IS IT RATIONAL TO ALLOCATE DEMAND RESPONSE PROGRAM COSTS ACROSS ALL CUSTOMERS BASED ON THEIR RESPECTIVE CONTRIBUTIONS TO THE COMPANY'S FIRM PEAK DEMAND?

A. Duke Energy Carolinas believes it is appropriate that all customers share in the cost of demand response programs. Because demand response programs allow the Company to shed load at times of peak demand, which is usually driven in the summer months by increases in residential demand, all customers benefit from these programs which help to delay or avoid the need for new generation. Consistent with the Base Load Review Act passed by the South Carolina General Assembly in 2007, the Settling Parties also agreed to allocate the cost of demand response programs according to the firm peak demand imposed by each customer class. Because demand response programs impact peak demand, use of peak demand to allocate costs is appropriate. Equally appropriate is the allocation of conservation programs on energy because these programs are focused on changing energy usage more than reducing peak demand. The Company believes use of peak demand allocation is a fair and rational means of allocating demand response program costs.

V. DSM DEFERRAL BALANCE RETURN TO CUSTOMERS

Q. PLEASE EXPLAIN HOW THE DSM DEFERRAL ACCOUNT BALANCE NOTED IN THE COMPANY'S APPLICATION WILL BE RETURNED TO CUSTOMERS.

A. As stated in the Company's Application, Duke Energy Carolinas accumulated a positive balance in the existing DSM programs, which has resulted in a balance owing to customers of approximately $87 million as of November 30, 2007. In accordance with the agreement reached with the Settling Parties, the Company proposes to reduce base rates for all customers to eliminate the DSM charge of $0.000811/kWh currently included in rates. The effective date of the base rate reduction will coincide with the initial Rider EE (SC) billing date.

In addition to removing the existing DSM charge, the accumulated net DSM deferral balance recorded on the Company's books and records (accumulated customer DSM billings in excess of DSM costs, including carrying costs applicable thereto) will be flowed through to customers as a reduction in customer bills. The flow-through of the net accumulated DSM deferral balance to Residential, General Service and Lighting customers will be used to offset, in its entirety, amounts recoverable under Rider EE (SC), net of the base rate credit due to the elimination of the current DSM charge of $0.000811, until the accumulated DSM deferral balance allocated to Residential, General Service and Lighting customers has been completely returned. The flow-through of the net accumulated DSM deferral balance to Industrial customers will be used to offset amounts recoverable under Rider EE (SC) without regard to the base rate credit of $0.000811.

Q. WHY IS IT APPROPRIATE TO DEAL WITH THE COMPANY'S DSM DEFERRAL BALANCE IN THIS PROCEEDING?

A. Because the Company's Application proposes to close existing DSM programs and remove the DSM factor from the Company's rates in order to implement a new Energy Efficiency Plan, we believe it is appropriate to also address the DSM deferral account balance relating to these existing programs in this proceeding.

VI. COMPROMISE ON PERCENTAGE OF AVOIDED COST

Q. PLEASE DESCRIBE THE AGREEMENT OF THE SETTLING PARTIES ON THE PERCENTAGE OF AVOIDED COST USED TO DETERMINE THE COMPANY'S COMPENSATION UNDER THE "SAVE-A-WATT" MODEL.

A. The Settling Parties have agreed that the Company will use 85% of avoided costs instead of 90% of avoided costs as filed in its Application for purposes of calculating Rider EE (SC) and for all other purposes described in the Company's Application and testimony. Thus, Duke Energy Carolinas will be compensated for investments in energy efficiency at 85%, rather than 90% as originally proposed, of avoided generation costs.

Q. HOW DO CUSTOMERS BENEFIT FROM THE REDUCTION OF THE COMPANY'S REQUESTED COMPENSATION?

A. At 90% of avoided generation costs, Duke Energy Carolinas' customers were realizing a 10% discount off of supply side alternatives to energy efficiency. With the reduction of its compensation to 85% of avoided generation costs as proposed in the Settlement Agreement, customers will realize even greater savings by paying 15% less than they would have been charged based on the incremental cost of avoided generation capacity and energy.

VII. <u>TWO YEAR REVIEW OF THE COMPANY'S ENERGY EFFICIENCY PLAN</u>

Q. PLEASE DESCRIBE THE TWO YEAR REVIEW PROVISION CONTAINED IN THE SETTLEMENT AGREEMENT.

A. On the second anniversary of the effective date of Rider EE (SC), the Settling Parties agreed that ORS will have the opportunity to conduct a full review and evaluation of Duke Energy Carolinas' Energy Efficiency Plan, including Rider EE (SC), the Company's energy efficiency programs, and the measurement and verification of achievements of these programs.

Q. WHAT IS THE PURPOSE OF THE TWO YEAR REVIEW PROVISION?

A. Duke Energy Carolinas and the other Settling Parties recognize that although the save-a-watt model is simple in concept, its practical application is somewhat complex. As a result, the Settling Parties agreed that a two year review by ORS would allow for a thorough evaluation of the Company's Energy Efficiency Plan that could result in recommendations for changes to the save-a-watt program. Duke Energy Carolinas believes that the experience ORS and the Company will have had with the Energy Efficiency Plan by that time will provide useful insight into ways in which it might be improved or simplified. The two year review provision will afford an opportunity to make necessary improvements early in the implementation process. In short, the purpose of the review is to ensure that the application of Rider EE (SC) is just and reasonable and the annual rider review process provides sufficient transparency to the Company's customers.

VIII. QUARTERLY REPORTS

Q. HOW DID THE COMPANY PROPOSE IN ITS APPLICATION TO REPORT ENERGY EFFICIENCY REVENUES?

A. In the Company's Application and pre-filed direct testimony, we sought to account for the impacts of the proposed save-a-watt regulatory treatment on energy efficiency revenues in our Quarterly Reports by including (i) revenues earned through Rider EE (SC), and (ii) expenses calculated at the higher of 90% of the avoided generation costs as calculated in Rider EE (SC) or actual program costs.

Q. WHAT CHANGE HAVE THE SETTLING PARTIES AGREED TO WITH REGARD TO THE WAY THE COMPANY WILL REPORT ENERGY EFFICIENCY REVENUES ON ITS QUARTERLY REPORTS?

A. The Settling Parties agree that Duke Energy Carolinas' will account for the impacts of the recovery of costs under the proposed Energy Efficiency Plan in the Company's Quarterly Reports filed with the Commission as follows: the Company's Quarterly Reports will report revenues earned through Rider EE (SC) and expenses calculated at 85% of the avoided generation costs as calculated in

Rider EE (SC), and actual program costs will be reported as a footnote. Further, Duke Energy Carolinas has agreed in the Settlement Agreement that it will not seek to recover program costs that exceed 85% of the avoided generation costs.

Q. WHAT IS THE PURPOSE OF THIS CHANGE AND HOW WILL IT BE REFLECTED IN THE QUARTERLY REPORTS?

A. The purpose of this change is to make clearer that the Company is not seeking to recover the higher of its program costs or 85% of the avoided generation costs. As stated in the pre-filed testimony of Company Witness Jacobs, Rider EE (SC) revenues will be included on page 1 in Electric Operating Revenues. Based on the agreement of the Settling Parties, Electric Operating Expenses on page 1 will now include only 85% of the avoided generation costs as calculated in Rider EE (SC). A footnote will be included on Page 1 indicating the actual program costs expended by the Company as reflected in the Company's books of account.

IX. ANNUAL EVALUATION PERIOD REPORT

Q. WHAT CHANGE HAVE THE SETTLING PARTIES AGREED TO WITH RESPECT TO DUKE ENERGY CAROLINAS' ANNUAL REPORT ON THE RESULTS OF ITS ENERGY EFFICIENCY PLAN?

A. Duke Energy Carolinas will file its report on or about October 31 of each year. Duke Energy Carolinas had proposed in the pre-filed direct testimony of Company Witness Farmer that ORS and the other parties of record in this docket have a period of 75 days to review the Company's report on the results of the prior Evaluation Period, as well as the proposed new calculations for Rider EE

(SC). Pursuant to the Settlement Agreement, the Settling Parties have agreed that this review period should be extended from 75 to 120 days.

Q. DO YOU BELIEVE THIS CHANGE IS REASONABLE?

A. Yes, because of the voluminous nature of the data supporting the Company's annual report to the Commission on the prior Evaluation Period, Duke Energy Carolinas believes it is reasonable to allow additional time to ORS and other parties to conduct discovery and evaluate the report and any prospective rider changes. It is also worth noting that this change will help to avoid requiring ORS and other parties to respond during the Christmas and New Years holidays.

X. CONCLUSION

Q. IN YOUR OPINION, IS THE SETTLEMENT AGREEMENT REACHED BY THE SETTLING PARTIES IN THIS DOCKET IN THE PUBLIC INTEREST?

A. Yes. The Company believes that the Settlement Agreement is in the public interest and represents a just and reasonable resolution of the issues in this docket. The issues as they are agreed upon in the Settlement Agreement do not necessarily reflect a position asserted by any of the Settling Parties, but rather are a compromise of a complex set of issues. The Company recommends and respectfully requests that the Commission approve the Settlement Agreement and incorporate it in its Final Order in this proceeding.

Q. DOES THAT CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes, it does.

EXHIBIT B-2

Supplemental Testimony of
Stephen M. Farmer for
Duke Energy Carolinas

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2007-358-E

In re:	)	
Application of Duke Energy Carolinas, LLC	)	**SUPPLEMENTAL**
For Approval of Energy Efficiency Plan	)	**TESTIMONY OF**
Including an Energy Efficiency Rider and	)	**STEPHEN M. FARMER FOR**
Portfolio of Energy Efficiency Programs	)	**DUKE ENERGY CAROLINAS**
	)	

I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME, ADDRESS, AND POSITION WITH DUKE ENERGY.

A. My name is Stephen M. Farmer, and my business address is 1000 East Main Street, Plainfield, Indiana. I am a former employee of Duke Energy Shared Services, Inc. On December 31, 2006, I retired as an employee of Duke Energy Shared Services, Inc. after serving Duke Energy Indiana, Inc. and its predecessor companies for over thirty-one years. I am currently self-employed and provide rate and regulatory consulting services as an independent contractor. I have been retained by Duke Energy Corporation as a consultant in the area of rates.

Q. HAVE YOU PREVIOUSLY FILED DIRECT TESTIMONY IN SUPPORT OF DUKE ENERGY CAROLINAS' APPLICATION IN THIS DOCKET?

A. Yes, I have.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A. The purpose of my supplemental testimony is to present and support revisions to the Company's energy efficiency rider ("Rider EE (SC)"), which was attached to my pre-filed direct testimony as Farmer Exhibit No. 1, to reflect provisions of the settlement agreed upon by the Office of Regulatory Staff ("ORS"), the South Carolina Energy Users Committee, and Wal-Mart Stores East, L.P. These parties, together with Duke Energy Carolinas, are collectively referred to hereinafter as the "Settling Parties."

II. REVISIONS TO RIDER EE (SC)

Q. PLEASE IDENTIFY FARMER SUPPLEMENTAL EXHIBIT NO. 1 WHICH IS ATTACHED TO YOUR PRE-FILED SUPPLEMENTAL TESTIMONY.

A. Farmer Supplemental Exhibit No. 1, which is entitled, "Rider EE (SC), Energy Efficiency Rider," is an update to Farmer Exhibit No. 1 attached to my pre-filed direct testimony. The Supplemental Exhibit reflects the agreement of the Settling Parties in this docket.

Q. CAN YOU PLEASE SUMMARIZE THE KEY CHANGES TO RIDER EE (SC)?

A. Rider EE (SC) has been revised to capture the following changes incorporated in the agreement of the Settling Parties

- Reduction of the Company's compensation from 90% to 85% of avoided generation costs and a corresponding increase in savings retained by customers from 10% of avoided cost to 15% of avoided cost;
- Allocation of cost recovery relating to demand response programs reflecting customer class contributions to peak demands as opposed to the residential/nonresidential allocation originally proposed;
- Creation of separate billing factors for demand response and conservation programs reflecting the change in allocation methods explained above; and
- Incorporation of opt-out provisions relating to non-residential energy efficiency conservation programs as more fully discussed below, including addition of termination fee language applicable to the opt out provision.

Q. PLEASE BRIEFLY EXPLAIN THE CHANGE IN ALLOCATION METHODOLOGY REFERRED TO ABOVE.

A. The recovery of costs associated with energy efficiency demand response programs will be allocated across all customer classes based on historical class contributions to firm peak demand. Costs associated with energy efficiency programs that help customers lower their bills by reducing the number of kilowatt-hours consumed (i.e., conservation programs) will be assigned so that residential customers pay costs relating to residential programs and non-residential customers pay costs relating to non-residential programs.

Specifically, the Settlement Agreement states that "the allocations among customer classes for demand response programs will be calculated in the same manner as those provided for in Sections 58-27-865(A)(1)...," which provides:

> All variable environmental costs included in fuel costs shall be recovered from each class of customers as a separate environmental component of the overall fuel factor. The specific environmental component for each class of customers shall be determined by allocating such variable environmental costs among customer classes based on the utility's South Carolina firm peak demand data from the prior year.

In order to implement this provision of the Settlement Agreement, the revenue requirements for the residential and non-residential demand response programs will be summed together and then allocated to customers based on the customer class' contribution to South Carolina firm peak demand from the previous year. This information, however, is not currently available for 2007. The information on the SC customer class' contribution to the SC firm peak demand is available but not the total (North Carolina and South Carolina) peak demand. The Company's programs are system-wide programs, therefore, the revenue requirements are at a system level and must be allocated between North Carolina and South Carolina and then between customer classes. Because the system allocation information was not available, the Company used an alternative method for the initial Rider. Consequently, the revenue requirements for all demand response programs were allocated to South Carolina retail customers based on the percentage of South Carolina retail energy sales to total retail energy sales. Note that this is the same method that is used for conservation programs. Once a South Carolina allocation of the demand response revenue requirements was calculated in this manner, the South Carolina-allocated portion of the demand response revenue requirements was allocated to the customer classes on the basis of the applicable customer class' contribution to South Carolina firm peak demand from 2006.

Q. PLEASE SUMMARIZE THE OPT OUT PROVISION INCLUDED IN THE SETTLEMENT AGREEMENT.

A. Large commercial and industrial customers whose maximum peak load demands exceed certain threshold levels (annual peak demand greater than 3,500 kW for individual accounts, or, aggregated loads of the customer and customer affiliates that when combined are greater than 6,000 kW) may opt out of the conservation portion of the Company's Energy Efficiency Plan subject to certain provisions included in the Settlement Agreement. Large commercial and industrial customers who elect to participate in all energy efficiency program(s) may not subsequently opt out of the energy conservation portion of the Energy Efficiency Plan without incurring a penalty. No customer may opt out of the demand portion of the Energy Efficiency Plan.

Q. ARE THERE OTHER PROVISIONS OF THE SETTLEMENT AGREEMENT THAT AFFECT SOUTH CAROLINA RETAIL CUSTOMER RATES?

A. Yes. The Company's original energy efficiency proposal included a provision whereby base rates for all customers would be reduced to eliminate the Demand Side Management ("DSM") charge of $0.000811/kWh currently included in rates. The effective date of the base rate reduction will coincide with the initial Rider EE (SC) billing date. In addition, the settlement includes a provision whereby the accumulated DSM deferral balance recorded on the Company's books and records (accumulated customer DSM billings in excess of DSM costs, including carrying costs applicable thereto) will be flowed through to customers as a reduction in customer bills.

The flow-through of the accumulated DSM deferral balance to Residential, General Service and Lighting customers will be used to offset, in its entirety, amounts recoverable under Rider EE (SC), net of the base rate credit referred to above, until the accumulated DSM deferral balance allocated to Residential, General Service and Lighting customers has been completely returned. The flow-through of the accumulated DSM deferral balance to Industrial customers will be used to offset amounts recoverable under Rider EE (SC) without regard to the base rate credit of $0.000811. The Company proposes that the accumulated DSM deferral balance be flowed through to customers through a rate decrement adjustment as reflected in column four of the Table on page 7 of my supplemental testimony.

Finally, the parties have agreed that Duke Energy Carolinas' will account for the impacts of the recovery of costs under the proposed Energy Efficiency Plan in the Company's quarterly surveillance reports filed with the Commission by including (i) revenues earned through Rider EE (SC), and (ii) expenses calculated at

85% of the avoided generation costs as calculated in Rider EE (SC). Actual program costs for the reporting period will be shown as a footnote in the reports for informational purposes only.

Q. HAVE YOU PREPARED AN EXAMPLE OF THE NET CHARGE TO CUSTOMERS TAKING INTO CONSIDERATION THE CREDITS REFERRED TO ABOVE?

A. Yes.

Q. PLEASE PROVIDE THAT EXAMPLE.

A. The following table shows the net charge to customers after all credits.

CUSTOMER CLASS	ANNUAL RIDER EE (SC) CHARGE PER KWH AS PROPOSED BY THE COMPANY	BASE RATE CREDIT DUE TO ELIMINATION OF THE DSM CHARGE CURRENTLY INCLUDED IN RATES	FLOW-THROUGH OF ACCUMULATED DEFERRED DSM COSTS	NET CUSTOMER CHARGE PER KWH AFTER CREDITS
Residential	$0.001586	$(0.000811)	$(0.000775)	$0.000000
Commercial	$0.000984	$(0.000811)	$(0.000173)	$0.000000
Industrial	$0.000665	$(0.000811)	$(0.000665)	$(0.000811)

Q. DOES THAT CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes, it does.

RIDER EE (SC)
ENERGY EFFICIENCY RIDER

APPLICABILITY (South Carolina Only)
Service supplied under the Company's rate schedules are subject to approved energy efficiency adjustments over or under the Rate set forth in the approved rate schedules.

ENERGY EFFICIENCY RATE ADJUSTMENT
Energy Efficiency Adjustment (EEA) increments will be applied to the energy charges of all rate schedules for Demand Response, to residential rate schedules for Residential Conservation, and to nonresidential rate schedules for Nonresidential conservation as determined by the following formulas:

EEA (Demand Response)

$$\frac{\text{(AC (Demand Response) + BA Applicable to Demand Response) x DA}}{S_{\text{customer class}}}$$

EEA (Residential Conservation) =

$$\frac{\text{AC (Residential Conservation) + BA applicable to the recovery of residential costs.}}{S_{\text{res}}}$$

EEA (Non-residential Conservation) =

$$\frac{\text{AC (Non-residential Conservation) + BA applicable to the recovery of non-residential costs}}{S_{\text{non-res net of opt out}}}$$

Where,
EEA = Energy Efficiency Adjustment
S = Projected kWh Sales for the Rider Period applicable to SC retail customers
AC = Avoided Cost (Capacity and Energy) Revenue Requirement
DA = Demand Allocator based on customer class contribution to SC coincident firm peak demand as provided for in SC Code Section 58-27-865(A)(1)
BA = Balance Adjustment

EEA is calculated for a 12 month period, referred to as the Rider Period. AC revenue requirement shall be separated between demand response and conservation based on type of program. The EEA applicable to residential, commercial and industrial customers shall consist of the sum of the allocated Demand Response EEA and Conservation EEA, as applicable.

AC (Demand Response) = (ACC (Demand Response) + ACE (Demand Response)) X 85% X SC Allocation Percentage

Where,
ACC (Demand Response) = Avoided Capacity Revenue Requirement for Demand Response programs
ACE (Demand Response) = Avoided Energy Revenue Requirement for Demand Response programs
85% = the percentage of avoided costs to be collected through the Rider
SC Allocation Percentage = Actual coincident peak demand applicable to SC retail customers using the latest calendar year data available at the time of filing / Duke Energy Carolinas' system coincident peak demand.

(Page 1 of 4)

RIDER EE (SC) continued

ENERGY EFFICIENCY RATE ADJUSTMENT (continued)

AC (Res or Non-Res Conservation) = (ACC (Res or Non-Res Conservation) + ACE (Res or Non-Res Conservation)) X 85% X SC Allocation Percentage

Where,
ACC(Res or Non-Res Conservation) = Avoided Capacity Revenue Requirement for Conservation programs, separated between residential conservation programs and non-residential conservation programs
ACE(Res or Non-Res Conservation) = Avoided Energy Revenue Requirement for Conservation programs, separated between residential conservation programs and non-residential conservation programs
85% = the percentage of avoided costs to be collected through the Rider

SC Allocation Percentage = Projected kWh sales applicable to SC retail customers (residential or non-residential) during the rider period / projected kWh Sales for the Duke Energy Carolinas' system (residential or non-residential) during the rider period

ACC = the sum of (DC + ROR x ACI) for each vintage year of each measure/program

Where,
Measure/program: Programs are a collection of energy efficiency measures which represent individual efficiency technologies available to customers. Each program or measure has a unique set of characteristics, including cost, operational life, and capacity and energy impacts. ACC is calculated based on the assumed life of each program or measure.

Vintage: ACC is calculated for each program/measure separately. A vintage year is the beginning year of participation for a group of participants. A group that participates in a program in the first year is in "vintage year 1", but will continue to produce savings due to measures installed over the program's assumed life. In the following year, results will be experienced from both vintage year 1 and 2. With each succeeding year, a new ACC vintage is calculated for that year's incremental capacity and energy impacts.

DC = Depreciation of the Avoided Capital Investment (ACI), calculated using straight-line depreciation over the life of the measure/program for each vintage year of the program.
ROR = Rate of Return from the Avoided Cost Filing

ACI = Present Value of the sum of the annual avoided capacity total (AACT) less accumulated deprecation (Sum of DC for current year and all previous years for that vintage) for each vintage of each measure/program over the life of the measure/program, with the Pre-Tax Weighted Cost of Capital as the discount rate.
Pre-Tax Weighted Cost of Capital will be based on the capital structure, cost of long term debt, and effective tax rate as included in the Avoided Cost Filing.

Values from the Avoided Cost Filing are determined as follows: the values proposed by Duke Energy Carolinas in South Carolina and approved by the Commission.

Where,
AACT = PD (in kW) x AAC (in $/kW-year), expressed for each vintage for each year in nominal year $s
Where,
PD = Projected Demand impacts for the measure/program by vintage year
AAC = Annual Avoided Capacity Costs (for generation connected at the transmission level) from the Avoided Cost Filing, escalated using the Escalation Factor, to obtain nominal year $ values for each year of the measure/program.
Escalation Factor = escalation factor used in Avoided Cost Filing for escalation of capital costs.

(Page 2 of 4)

RIDER EE (SC) continued

ENERGY EFFICIENCY RATE ADJUSTMENT (continued)

ACE = the sum of (DE + ROR x AEI) for each vintage year of each measure/program

Where,
DE = Depreciation of the Avoided Energy Investment (AEI), calculated using straight-line depreciation over the life of the measure/program.
AEI = Present Value of the sum of the annual avoided energy total (AAET) less accumulated depreciation (Sum of DE for current year and all previous years for that vintage) for each measure/program over the life of the measure/program, with the Pre-Tax Weighted Cost of Capital as the discount rate.

Where,
AAET = PE (in kWh/year) x AEC (in $/kwh/year), expressed for vintage for each year in nominal year $s
Where,
PE = Projected Energy impacts for the measure/program by vintage year
AEC = Annual Avoided Energy Costs from modeling results that calculate the annual energy costs for the Duke Energy Carolinas system with and without the portfolio of energy efficiency programs. The difference between the energy costs for the portfolio is assigned to individual program/measure vintage years to determine the Annual Avoided Energy Costs for the program/measure by vintage year. The modeling is consistent with the methodology used for energy cost determination in the Avoided Cost filings and Integrated Resource Plans.

BA = RREP - AREP

Where,
AREP = Actual Revenues from the Evaluation Period (which reflect 85% of avoided costs) from South Carolina retail customers
RREP = Revenue Requirements for the Evaluation Period
Evaluation Period = the time period to which the evaluation results apply.

Where,

$$\text{AREP} = \frac{[\text{EE(Evaluation Period)} \times \text{AKWH} - \text{BA(Evaluation Period)}] \times \text{RREP}}{\text{AC(Evaluation Period)}}$$

Where,
EE(Evaluation Period) = Rider EE (cents/kwh) for the class of customers in effect during the evaluation period
AKWH = actual kWh sales for the evaluation period for the class
BA(Evaluation Period) = BA for the class of customers in effect during the Evaluation Period.

RREP = 85% x SC Allocation Percentage x ((∑ACC(Evaluation Period) x AD/PD(Evaluation Period)) + ∑(AEC (Evaluation Period) x AE/PE(Evaluation Period)), for each measure/program and then summed

Where,
ACC (Evaluation Period) = Avoided Capacity Revenue Requirement as calculated for the Evaluation Period for the measure/program
AD = Actual Demand results as validated by program evaluation for the measure/program
PD (Evaluation Period) = Projected Demand results as calculated for the Evaluation Period for the measure/program
AEC (Evaluation Period) = Avoided Energy Revenue Requirement as calculated for the Evaluation Period for the measure/program
AE = Actual Energy results as validated by program evaluation for the measure/program
PE (Evaluation Period) = Projected Energy results as calculated for the Evaluation Period for the measure/program

(Page 3 of 4)

RIDER EE (SC) continued

EFFECT ON RATES
As a result of the Commission's Order No. _____ in Docket No. ___________, the Energy Efficiency Adjustment Rider is included in the current rate schedules effective for service on and after (date). The effect of the Commission's Order, including revenue related taxes, is an increment by customer class and type of program as set forth in the table below:

Customer Class	Increment Per Kilowatt-hour Applicable To Demand Response Programs	Increment Per Kilowatt-hour Applicable To Conservation Programs	Total Increment Per Kilowatt-hour
Residential	.1223 ¢/kWh	.0363 ¢/kWh	.1586 ¢/kWh
General Service	.0925 ¢/kWh	.0059 ¢/kWh	.0984 ¢/kWh
Industrial	.0606 ¢/kWh	.0059 ¢/kWh	.0665 ¢/kWh

OPT OUT PROVISION FOR LARGE NONRESIDENTIAL CUSTOMERS

The EEA increment applicable to Conservation Programs will not be applied to the energy charge of the applicable rate schedule for Customers qualified to opt out of the programs where:

a. The Customer certifies or attests to the Company that it has, within the last three years, performed or had performed an energy audit or analysis for its accounts/locations receiving service under a nonresidential rate schedule and has implemented or has plans for implementing the cost-effective measures identified for installation in that audit or analysis; and
b. The Customer's annual maximum peak demand is greater than (i) 3500 kW for an individual account/location, or (ii) 6000 kW for each account/location qualifying under a. above. In determining the availability of b. (ii), a Customer may aggregate the load of the accounts of the Customer's affiliates served by the Company in South Carolina to meet the minimum 6000 kW requirement. For purposes of this provision, an "affiliate" shall be defined as any business entity of which 50% or more is owned or controlled, directly or indirectly, by the customer.

The following additional provisions apply for qualifying customers who elect to opt out:
- The Customer may not opt of the Company's individual energy conservation programs. The choice to opt out applies to the Company's entire portfolio of energy conservation programs.
- If a customer elects to participate in an energy conservation program, the customer may not subsequently choose to opt out of the Conservation Program EEA for a period of five (5) years or the life of the applicable measure, whichever is longer.
- Charges under Rider EE (SC) will resume at the end of five (5) years or the life of the applicable measure, whichever is longer.
- In the event of termination of service and/or termination of participation in an energy efficiency measure qualifying for the opt out provision of this Rider prior to the expiration of the life of the applicable measure or five (5) years, whichever is greater, the customer shall pay the Company a termination charge equal to the prorated value of the incentive provided to the Customer. This fee shall be determined by dividing the remaining term of the measure life by the full measure life or five years, whichever is greater, and multiplying the resulting quotient by the incentive paid to the Customer under the applicable measure.

USE OF RIDER
Because Rider EE (SC) charges are already included in the Rates of the Company's current rate schedules, which are effective for service on and after (date), this Rider should not be used in addition to such rate schedules for bill calculations.

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2007-358-E

In Re: Application of Duke Energy Carolinas, LLC for Approval of Energy Efficiency Plan Including an Energy Efficiency Rider and Portfolio of Energy Efficiency Programs	))))))))	**CERTIFICATE OF SERVICE**

This is to certify that I, Leslie Allen, a legal assistant with the law firm of Robinson, McFadden & Moore, P.C., have this day caused to be served upon the person(s) named below the **Explanatory Brief and Joint Motion for Approval of partial Settlement and Adoption of Settlement Agreement** in the foregoing matter by electronic means. A supplemental copy will be served upon the person(s) named below on January 30, 2008 by placing a copy of same in the United States Mail, postage prepaid, in an envelope addressed as follows:

Jeremy C. Hodges, Esquire
Nelson Mullins Riley & Scarborough, LLP
P.O. Box 11070
Columbia, SC 29211

Scott A. Elliott, Esquire
Elliott & Elliott, PA
721 Olive Avenue
Columbia, SC 29205

J. Blanding Holman, IV, Esquire
Southern Environmental Law Center
200 W. Franklin Street, Suite 330
Chapel Hill, NC 27516

Robert E. Tyson, Jr., Esquire
Sowell Gray Stepp & Laffitte, LLC
Post Office Box 11449
Columbia, SC 29211

Nanette S. Edwards, Esquire
Office of Regulatory Staff
Post Office Box 11263
Columbia, SC 29211

Dated at Columbia, South Carolina this 29th day of January, 2008.

Leslie Allen

Leslie Allen